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September 13, 1996

EX PARTE

William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, N.W.- Rm. 222
Washington, D.C. 20554

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SEP 13 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Re: CS Docket No. 96-45

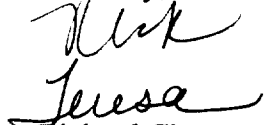
Dear Mr. Caton:

On August 23, 1996 Richard Cimerman and Teresa Pitts of The National Cable Television Association met with Sharon Nelson and Lee Palagyi of The Washington Utilities and Transportation Commission to discuss NCTA's position on Universal Service. In addition, on August 29, 1996 Richard Cimerman and Teresa Pitts of NCTA met with Ken McClure and Martha Hogerty to discuss NCTA's position on Universal Service.

Please find attached a copy of the handouts Richard and Teresa distributed to all parties during the meetings.

If you have any questions concerning this matter, please contact the undersigned.

Sincerely,

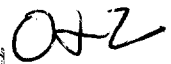


Richard Cimerman

Teresa Pitts

Directors, State Telecommunications Policy

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Summary of NCTA Position

**Small Fund
Competitively Neutral
All Carriers Contribute
Assessed on Net Telecom Revenue
Existing Mechanism Unsustainable
Changes unnecessary to Lifeline & Link-Up**

Why Benchmark Cost Model

Forward Looking Incremental Costs

Economic Non-Embedded Costs

Competitively Neutral

Sustainable without Separations

Allows National Benchmark Rate for Federal

Funding with State Option for Additional

Allows Geographic Deaveraging of Costs

Does Not Rely on Reported Costs thus System is

Less Subject to Gaming

Differences in BCM vs USF

New Perspective

Local Rate + SLC + CCL = BCM

CBG or Wire Center vs Study Area

Forward Looking vs Embedded Loaders

Copper/Fiber Crossover

Modified BCM

**Actual prices for Investments (no ARMIS)
Economic /Copper Fiber Crossover Point
Wire Center Efficiencies
Forward Looking Loaders
Switch Cost Adjustments
Primary Line Only**

Caution & Conclusion

Comparisons of proxy & “actual” costs are necessarily flawed

Price Cap companies should not receive funding

Model validation -

test robustness of underlying logic

use up-to-date information for data inputs

subject model to sensitivity analyses

model & inputs must be open

DOES THE EXISTING UNIVERSAL SERVICE FUND MEASURE UP?

YES

NO

Competitively Neutral

X

**Explicitly Targeted to High
Cost Areas**

X

Encourages Inefficient Investment

X

DOES THE EXISTING UNIVERSAL SERVICE FUND MEASURE UP?

Competitively Neutral

Existing Mechanism dependent upon Part 32 and Part 36

Only LEC Are Eligible

DOES THE EXISTING UNIVERSAL SERVICE FUND MEASURE UP?

Explicitly Targeted to High Cost Areas

**\$91 Million is Paid to Companies Receiving Less Than
\$1/loop/month**

No Mechanism to Ensure High Cost Areas Receive Money

DOES THE EXISTING UNIVERSAL SERVICE FUND MEASURE UP?

Encourage Inefficient Investment

The Fund Rewards Deployment of High Cost Technology

**The Fund Rewards High Administrative and Overhead
Expenditures**

California ALJ Decision Universal Service

PacBell Cost Proxy Model (CPM) adopted

\$1.7 billion PacBell result reduced by \$1.452 billion

12 Adjustments Made

CPM Adjustments 1

Number of Lines Subsidized

Reduction of \$56.96 Million

Subsidize only 1 line

Drop Costs

Reduction of \$39.7 Million

Share cost of drop over 2 pairs

Cable & Conduit Costs

Reduction of \$46.06 Million

Revised copper cable cost

Additional reduction of \$95.2 Million

Add function to reflect conduit cost on per trench foot basis

CPM Adjustments 2

Fiber Feeder Cut-Off

Reduction of \$77.6 Million

Adjust fiber/copper crossover from 9,000 to 12,000 feet

Fill Factors

Reduction of \$90.7 Million

Consistency with OANAD proceeding

Depreciation

Reduction of \$245 Million

Facilities used for universal service face less obsolescence than facilities used for advanced telecom services

CPM Adjustments 3

Reordering of Switches

Reduction of \$107.05 Million

Mismatch of switches with density zones

Outside Plant Factor

Reduction of \$33.8 Million

Correct inappropriate adjustment for outside plant costs in dense areas

Switching Costs

No Change

CPM Adjustments 4

Shared & Common Costs

Reduction of \$415.7 Million

Improper allocation to basic residential service

Rearrangements & Nonrecurring Burden

Reduction of 75% in each category - or \$207.5 Million

Quick dialtone requirement means few facilities will be rearranged and most installs will involve only C.O. changes

Directory Assistance

Reduction of \$48.4 Million

Examination of actual call volumes